



1919



Economic Conditions Governmental Finance United States Securities

NEW YORK, SEPTEMBER, 1919.

General Business Conditions.

GENERAL business conditions are not materially different from what they were a month ago, although the feeling as to the future is decidedly more conservative, as a result of the disquieting labor conditions and particularly the attitude of the heads of railroad organizations. It is generally recognized that the wage advances which are being demanded and granted on all sides are not accomplishing any permanent settlement, but probably making future conditions more difficult.

Payments through the banks in midsummer have been running much above the record for any season of a previous year. This is due in part to the highest prices on record, but it also signifies great activity in production and trade. The steel industry is up close to its capacity in many lines, although railway buying is light. Export selling has been on a good scale, although it would be much larger if the credit problem was solved. In practically all textile lines the demand exceeds production, and in woolen goods the manufacturers are naming their prices and allotting their product to their regular customers, who gratefully take what is assigned to them or beg for more. Resales are above manufacturers' prices.

The labor supply has reached a state of decided scarcity for women as well as men. The agricultural and fruit-growing districts, canning factories and all rural employments are bidding higher than ever before. The steamers for Europe continue to be crowded in their steerage accommodations.

The retail trade is on an enormous scale in every part of the country. Merchants are bothered to get the goods required to meet the demand on them, and all accounts agree that the demand is for goods of high quality. The trade situation controverts the claims that high prices are depriving any considerable portion of our people of the comforts of life. The situation seems to be that the buying power of the people has outrun the rate of production. They need to speed up the latter or save more capital for investment in productive equipment.

The crop situation is better than a month ago, as the corn crop which was then in a critical state was saved by timely rains and promises a larger yield than was counted on at any time earlier in the season, possibly 2,900,000,000 bushels. The hay and forage crops are excellent, so that the situation as to meat supply and dairy products is improved. The wheat yield is about the same as last year.

The Price Situation.

Following the signing of the armistice came several months of uncertainty about prices. The Government dropped out of the markets as a buyer, it was known to have large stocks of supplies which it would have to dispose of, the millions of men in the army were to be returned to industry and the war industries were to be demobilized; the general conclusion was that a fall of prices must follow.

The situation, however, was stronger than appeared. Retail trade continued heavy, and merchants had to buy quite freely in the spring. The European demand for food-stuffs raised prices for these commodities, and this made any general reduction of wages and of industrial costs in the near future improbable. As the situation became more settled, business revived, goods proved to be scarce and prices tended upward. Such a movement is cumulative, and by the first of June, stimulated further by good crop prospects, the country was in mood to buy everything from good clothes to automobiles, and all fears of a period of unemployment had vanished.

In June and July the crops were seriously hurt. Three hundred million bushels were marked off the wheat crop from the high estimate, the other small grains all suffered and corn was threatened with disaster. This development radically changed the situation as to the prospective food supply. Instead of having a surplus which would fill up the empty bins both here and in Europe, and bear the price, as a known surplus always does, it was evident that for another year there must be a close matching of supply against demand. Of course prices responded. In time of

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threatened scarcity everybody wants to make a little more certain provision than when there is an assured surplus. Consumers do it and dealers do it, just as they all abstain from buying when there is a prospect that prices will go lower.

The June exports of the United States were on an enormous scale and this foreign buying had an influence on the markets, notably upon foodstuffs, leather and textiles. There was something like a scramble on the part of merchants to place orders for fall goods, and considerable extravagant talk about the prices which clothing and shoes would command next year.

Early in August came the demands of the railroad orders, couched in threatening language and suggesting the possibility of a strike which would shut down the transportation facilities of the country. Following in its wake was an epidemic of strikes, based upon the cost of living argument, the whole proceeding tending to promote excitement and ill-considered action.

It was probably desirable, in view of the fact that food must remain high for another year, that official action should be taken to supervise the situation, and thus give assurance that they will not be higher than the conditions make necessary. So far, however, the actual results of official activity are not important, and there is danger that the interference of a host of uninformed prosecutors may seriously disarrange the proper provision for next winter's supplies.

The most potent influence for lower prices is the assurance of a good corn crop.

The Labor Situation.

The labor situation is disquieting because the unrest which is prevalent tends to lower production, when the only possible remedy for the conditions complained of is in larger production. It is a trying time, a time which tests the sanity and patriotism of would-be leaders and groups. Every one who has any understanding of economic law and of social progress must be anxious that sober counsels shall prevail, and that the entire machinery of production shall be worked without interruption and with the highest possible efficiency to relieve the existing scarcity. This is no time for turmoil and strife, for class struggles or inflammatory speech. The men who have the qualities for wise leadership know that most of the troubles of society are due to the failure of people to understand one another, and they seek in times like this to quiet excitement and bring men together, rather than to intensify feeling and aggravate the disorder.

What is wanted now above everything else is work, steady, earnest work to repair the wastes of war and make good the shortage of necessities and comforts which has resulted from the four years' interruption of industry. There is no other way to make it good. Nothing could be more certain than that such a shortage would

exist at the end of the war, and no one could rightfully expect to escape all cost and inconvenience to himself. It is a time for the exercise of patience and reason. Conditions are undoubtedly trying for many people, but there is every reason to believe that they are temporary and will gradually right themselves as production is resumed. Indeed all precedents go to show that in the long run the wage-earning class will come out with permanent benefits. Their wages have had a large advance, and when general prices fall they will be in a better position than ever before.

Fair Play.

Modern society is necessarily co-operative. The population of this country cannot make a living as a primitive people, by hunting and fishing. They must supply their wants by means of organized industry, exchanging goods and services with each other. That kind of peaceful, progressive society is only possible upon the basis of respect and consideration for each other's rights. There must be an honest desire to give and take on terms that are mutually fair. The idea that the social groups shall take advantage of any strategical position which they may hold to get the better of each other is repugnant to the whole idea of co-operation, and in the long run no such advantage will be tolerated.

The employees of transportation companies, for instance, have it in their power to paralyze all kinds of industry, but their right to use the power which is thus accidentally in their hands cannot be admitted. They have a valid claim to just treatment, but the determination does not rest with themselves. They will certainly lose out in any conflict upon that issue, because the interests of no single group can ever be held superior to the rights of the whole community. The railroad men will always have the right to resign and go into other work, as thousands of low-paid Government employees are doing, but the right to conspire to tie up the transportation system is something different.

Position of the Farmers.

The farmers are at a disadvantage in any general scheme of guild industry, where the workers of each industry have the privilege of fixing their own compensation and terms of labor, but they are thinking seriously over the tendency to this state of things. They are developing ideas along the same line. The acreage in cotton is said to have been reduced 8 or 10 per cent this year by such propaganda, and the ominous feature of it is that the reduction was accomplished among the most intelligent and well-to-do class. There is arbitrary curtailment of production this year, both in raw cotton and in cotton goods, and the cost of cotton goods is enhanced to the entire population in consequence. What will be the

effect upon the cost of living of a general eight-hour day on the farms? Does organized labor advocate it?

It must be evident that group action of this character, intended in each case to advance the interests of a small section of the population without consideration for all the rest, is wrong in principle and will defeat itself in the long run, because all can play at the game. It tends to disrupt society instead of unite it, to produce antagonism and conflict instead of harmony and co-operation, although the latter embody the only policy that will improve living conditions for all.

Responsibility for Social Conditions.

No group is justified in threatening to pursue a policy which is wrong in principle, and which would produce chaos if adopted by all. There is no justification under our form of government for threats against the government or against society. Each group is as much responsible for good government and for the wise direction of society as any other. The orderly participation of all is not only invited but enjoined as a duty, and no class has a right to say that some other class, or the government, must forthwith produce satisfactory conditions.

The plain fact is that neither the government nor any single class can do much to ameliorate present conditions. Nothing but greater production can give a greater supply of the things that everybody is wanting and threatening to fight for. The government has very little to do with production, and is chiefly active in hampering it. Production depends upon hard, steady work, and the full-time operation of machinery. When all classes recognize this and join hands to produce an abundant flow of necessities and comforts, the blessing of abundance will descend upon this troubled world, and not before.

The Bureau of Labor at Washington has made a calculation of increased living costs from July, 1914, to July, 1919, and reports the average over the country at about 70 per cent. The labor organizations which are just now agitating most vehemently for more wages have already had advances to approximately cover this increase, or more.

Full Production Wanted.

It is a calamity to have lost 300,000,000 bushels of wheat from this year's crop as it neared maturity, but that was caused by weather conditions and could not be helped. It is bad enough to have losses that are beyond our control, without deliberately interrupting industry or reducing the production of anything that will serve human needs.

The number of spindles in the cotton mills of the United States increased from 33,657,000 to 34,184,000 in the year ended July 31, 1919, but the consumption of raw cotton declined 800,000 bales. The production of cotton cloth is falling behind that of last year month by month.

The eight hour day may be all right in the textile mills in normal times, but surely a better time for inaugurating it might have been found than when the whole world was short of clothing. The same is to be said with greater emphasis of the proposal of the anthracite miners to reduce their hours of work to six. Demands for higher wages are less to be complained of than curtailment of production. Wage increases cannot compensate even the wage-earners themselves for scarcity of these necessities. Scarcity means that there is not enough to go around; somebody must go without. Scarcity is not only responsible for prices that are necessarily high, but for the profiteering. It gives the profiteer his opportunity.

Mr. J. R. Clynes, one of the leaders of the Labor party in England, and a member of Parliament by their votes, in a recent speech made this very point. He is reported at a summer school address at Oxford University on August 7, as follows:

In a comparison between profiteering and decreased production he said that the workers could make no more lamentable mistake than to encourage under-production. "Scarcity of commodities is the opportunity of the profiteer. Scarcity may cause inconvenience to the rich, but it causes real and continued privation to the masses of the people whose purchasing power is limited. Some forms of profiteering can be punished by law, but workmen who deliberately restrict output or fail to accept any form of development which can make their labour more productive are punishing their own class without knowing it, and are imitating the profiteer, who thinks only of himself."

If profiteering was conscious pilfering, continued Mr. Clynes, "ca' canny" was an ignorant act which inflicted little loss upon the favored classes, but the greatest loss upon the poor and those who earned low wages. It was only through the use of labor and economic resources in their highest and most efficient form that the nation could make itself equal to efficient competition by other nations or make up the arrears of the war. In pleading for that efficiency he pleaded also for a higher standard of life and a more abundant share of the world's goods for those who produced them.

With the extension of the franchise the nation must face the fact that there existed a political force which would before long be capable of assuming the authority of government. How long that would be would depend upon how labor presented its programme to the electorate. It would not win the approval of the nation merely by giving shocks to the nation. The enormous new-found power, industrial and political, which the workers had acquired could be wasted by a reckless use of it in needless stoppages and strikes. If Labor was ever to think of itself as a controlling force in the nation it must cease to think of itself in the terms of class, as it had done hitherto. Working men could if they wished, be the governing class, and they would be the governing class as soon as they had convinced the nation that they were fit to govern well.

The Socialists of Germany understand better than ever before the necessity of emphasis upon production. The leading Socialist organ, *Vorwaerts*, is quoted as laying down in a recent editorial these proposals:

That workmen be paid according to the actual work done by them; that workmen must be made to understand that good pay is only obtainable in return for good work, and that capable workers must have the opportunity to earn, by greater application to work, more than the amount represented by a fixed scale.

When these proposals are adopted there is practically nothing left of Socialism as a distinctive doctrine. The whole subject is reduced to a practical study of how to determine relatively the contributions which individuals make to production. It will be an enormous gain to have common consent that emphasis shall be laid upon production. Throughout current discussion it is laid almost entirely upon distribution.

One Explanation of High Prices.

The City of New York has been conducting sales of foodstuffs taken over from Government supplies, for the purpose of giving some relief to consumers from the prevailing high prices. The Deputy Commissioner of Markets, Edwin J. O'Malley having this distribution in hand gives the following account of some of his troubles:

"I went to the East Twenty-fourth Street pier," he said, "to see how we were getting along unloading the barge. We are paying a big price for our trucks; and I wanted to be sure they were being kept busy. When I got to the pier I found the bargemen lying on the boxes, their rolled-up coats being used as pillows. The drivers of seven trucks were sitting half asleep in their machines.

"I asked a man on the barge what the trouble was. I was told that just as they were starting to work a delegate of their union happened along and told them they were not permitted to load the boxes on trucks. They could only put them on the pier. It was the job of another labor organization to get the food from the pier to the trucks.

"As the tailboards of the trucks extended over the barge, I pointed out that it was easier to load the boxes on the truck than to carry them around the truck and put them on the pier. Finally the men offered a compromise. They would load the boxes on to the tailpieces of the trucks, they said, but I would have to get men from another union to haul the boxes to the middle of the truck.

"I found the delegate of the proper union, who got the men who are permitted to load the trucks. We paid the barge helpers 60 cents an hour, I believe. The newcomers got a cent a box, and each driver and truck cost us \$32 a day. After we got things under way it didn't take long to have a string of trucks running from the pier to the various schools.

"But I think I got one of the real reasons for the high cost of living. That is, the number of men who handle the various commodities before they reach the consumer. Just think, for one truck, a driver who can't do anything but drive, one man to put a box on the tailboard, and another to pull that box to the centre of the truck."

When the whole system of industry and distribution is laboring under difficulties like this, is it any wonder that prices are high? Mr. O'Malley's experience illustrates the daily troubles of a business man.

British Labor Leaders.

Labor conditions have been worse in Great Britain than here, partly because industrial conditions were not so good and partly because some of the influential labor leaders have belonged to the radical socialist group. In the United States the responsible labor leaders are not socialists, and are active opponents of the I. W. W. and Bolshevik propaganda. A large majority of the British labor leaders are likewise conservative, and opposed to revolutionary methods.

The Hon. William M. Hughes, present Prime Minister of Australia, came up in public life as a leader of organized labor. He has been recently in England, and on June 24th last he was the guest of honor at a luncheon given in London by a group of the most influential labor leaders of Great Britain. His speech was a good one, and more significant when the career of the speaker and the character of the company to which it was addressed was considered. The following is an extract:

The industrial heavens are all overcast with black clouds; the position of unionism, of organized labor, indeed, of society generally, is hedged about with very grave and complex problems. Unrest, not confined to the industrial sphere, but extending into every corner of human activity, everywhere manifests itself. The world is in convulsions—largely the after-effects of the frightful war in which it has been engaged these last five years. Wars and rumors of wars, strikes, discontent, unrest of all kinds are seen on every hand throughout the whole world. It would be foolish to deny that the outlook is grave. The masses are everywhere in a state of great unrest, their minds reflecting the conditions in which they find themselves, and in turn accentuating or rendering these more difficult by their acts and attitude.

When we ask in what direction or by what means we are to find a solution for the problems that confront us, how are we to avoid the dangers that encompass us about, we are overwhelmed with a babel of cries. * * *

Whether labor is to come speedily or at all into its kingdom, whether it is to be entrusted with the responsibility of government, whether it is to ensure for itself a place in the sun and a fair share of the goodly fruits of civilized society depends upon the ideals that animate it, and the methods by which it seeks to give effect to them. If it is to be animated only by a sordid materialism, then it can hardly succeed. It must prove itself worthy, it must lift society up to a higher level.

If the world is to be saved—if this dreadful sacrifice of blood and treasure expended in this war is not to have been in vain—force must give way to reason. Might to right. Labor may learn—as indeed all sections of society may learn—from the fate of Germany, which sought dominion over the earth by force at the expense of right and of justice, what will befall it if it resorts to similar methods. Yet, had Germany been content to pursue that policy of peaceful penetration which had everywhere met with such great success for another decade the substance of the world would have been within her grasp.

The foundation of the new England that is to be, which the workers were promised, the thought of which cheered them through the darkest hours of the great war, rest upon the production of mere

wealth. High wages will not come from words, from Lemme or Trotsky or the pewter imitations in this country who were trying to fool those unfortunate people who turned a deaf ear to them during the war, but now look for a short way to a better world. For nearly five years the world has been engaged in the work of destruction. Like men who have indulged for a long period in riotous debauch, it has now got to turn with determination to the work of making good that which has been lost; it has to bear the burdens, grievously heavy, of this great war; it has to produce wealth in sufficient quantity to enable high wages to be paid. And these things can only be done by a recognition of the facts of life and of modern production.

Capital Accumulation Is Necessary.

Capital—whether it be controlled by the individual or by the state is not material from this standpoint—must have that return which is necessary to repair wastage and to ensure sufficient supply. The world cannot consume without producing. Labor cannot produce the maximum output without sufficient capital to ensure the most effective methods of production. Capital itself is the margin which consumption leaves over from production. The only way by which a sufficient amount of wealth can be produced to give those high wages that the workers are resolved to have is that capital in sufficiently large quantities shall be available to enable labor to produce in abundance.

In order that the workers of Britain may get that which they desire, the most up-to-date methods of production must be resorted to. And every man must be animated by that same spirit that carried the Empire through the great war. That man who produces to the utmost of his capacity is the citizen to whom the state and his fellows owe most. He who produces nothing, or as little as he can, is the enemy of society.

Two things that act and react on one another, and are both fatal to the development of that state of society which alone can create satisfactory conditions in this or any other country, are profiteering and the go-slow or the "ca'canny" policy. The profiteer is, as I see him, one of the most deadly menaces to any country. By his exploitation and his extortions, by his soulless disregard of the welfare of the individual and the state, he shares with the enemy, whose instrument he too often has been, the responsibility for Bolshevism. He is the most prolific cause of industrial unrest. He is the enemy of society, the breeder of Bolshevism. At all costs the profiteer must be repressed.

Supreme Effort Needed.

On the other hand restriction of output—and not only restriction of output, but that spirit of careless indifference to production—must be condemned, unsparingly. Those who counsel restriction of output are the enemies of labor, and if their counsels be heeded will surely lead it to destruction.

The workers have everything to gain and nothing to lose by increasing output. They are now powerful enough to insist upon their fair share of that which is produced. The more they produce the greater their share will be. The less they produce the less they will get.

Only by a supreme effort, in which all classes co-operate, can Britain hope to bear the crushing burdens of war and hold her own in the world's markets.

Our readers will recognize that if Mr. Hughes had set about making a speech for the express purpose of supplementing the arguments which this publication has been constantly presenting, he could not have made

the statement more complete. Upon that platform Labor and Capital can get together and work for social progress. They may have disagreements over details, but if they keep the main purpose in view these will be adjusted without serious difficulty, because there will be no difference in principle.

The Foreign Exchanges.

The official figures for the foreign trade of the United States in the month of July show that exports were about \$570,000,000, or \$350,000,000 under the phenomenal figures of June, while imports at \$345,000,000, were the largest for any month on record, nearly \$50,000,000 above those of June and \$100,000,000 above those of July, 1918.

The decline of exports and rise of imports is what might be expected with the foreign exchanges depreciated as at present, but these exports are still far above normal.

The exchanges went from bad to worse during the month, the pound sterling declining in the New York market on the 20th to \$4.12½, while Paris francs fell to 8.22 to the dollar and the Italian lira to 9.57 to the dollar. At these figures purchases were made which caused a rally, but the situation remains very unsettled. We reproduce herewith the table given last month, showing the mint par of foreign moneys, the exchange rate prevailing then and the rates on August 27:

	Unit Value	Ex. rate July 30	Ex. rate Aug. 27	Discount from mint par
Germany	2382	.06250	.0500	79.0%
Italy .....	.1930	.1168	.1043	45.9%
Belgium .....	.1930	.1345	.1199	37.8%
France, .....	.1930	.1370	.1250	35.2%
England	4.8665	4.3650	4.2400	12.8%
Switzerland ..	.1930	.1785	.1766	8.5%
Holland .....	.4020	.3775	.3712	7.6%
Denmark .....	.2680	.2225	.2175	18.8%
Norway .....	.2680	.2375	.2310	13.8%
Sweden .....	.2680	.2475	.2440	9.0%
Spain .....	.1930	.1930	.1910	1.0%
Argentine ...	.9648	.9615	.9625	¼%
Japan .....	.4885	.5080	.5100	Prem. 4.2%

We have discussed this subject in such detail from month to month, that we think even our non-professional readers must have a fairly clear idea of the demoralization which exists and the menace which results to the business situation. The trouble arises from the fact that our sales to foreign countries so largely exceed our purchases from them that they are unable to find the means of settling the balances. Even in July, notwithstanding the falling off in exports and increase of imports the balance was \$225,000,000. The foreign buyer of American goods must convert his foreign currency or bank credit into American dollars, and when he must do so at the rates named above the wonder is that business continues in such volume.

An Inexorable Situation.

Some confidence has been expressed since the rally in rates from the low figures of August 20, that the bottom has been reached, but only the course of trade can determine that. The only comment that can be made positively is that the situation must come into an equilibrium. Our exports must decline, or our imports of goods and securities must increase. These low exchange rates operate both ways, making it very costly for Europe to buy from us and very cheap for us to buy from them. We can buy French goods or securities nearly 40 per cent cheaper than the French people can buy them, and on the other hand, what they buy here costs them about 40 per cent more, not counting freight, than it costs us.

Sales for export are already being affected, cotton notably. It is an interesting fact however, that the low exchange rate may be actually turned against us in the case of cotton and cotton goods. A British or German cotton manufacturing concern can import cotton from the United States and ship the goods made there from back to this country and make money on the exchange situation. The exchange charges on the raw cotton would be unfavorable to him, but on the finished goods they would be favorable to him, and of course the cotton is worth a great deal more, pound for pound made into goods than in the raw state. The exchange charges on his exports to this country would be calculated not only on the original cost of his raw material but upon the value of all the labor, dyes and other incidental costs which went into it.

Reports of large contracts taken by Americans for construction work in France are unconfirmed. The work is there to be done, but the question of how payment can be made is unanswered.

Excited Comment.

This situation naturally causes some excited and emphatic comment both at home and abroad by people who do not fully understand the difficulties and think a remedy should be provided forthwith. Europeans are astonished at the indifference we show to their necessities and our own trade opportunities, while our home critics usually content themselves with blaming the bankers.

Owing to the rise of prices, particularly of foodstuffs and clothing, in the last two months there has been a development in this country of the view that a curtailment of our exports would be beneficial. This is certainly a mistaken opinion. Our supply of foodstuffs is in excess of our needs and although prices undoubtedly would be cheaper if the foreign demand was cut off, we cannot wish that starvation and anarchy should exist in Europe in order to make food cheap here. We are not in such distress as that. Moreover, it must be considered that while a falling

off in this great export trade would indeed bring down prices, it would also seriously effect trade and employment in this country. It is partly the direct exports of manufacturers and partly the great prosperity of our agricultural districts which are providing employment at high wages in our manufacturing industries. We cannot have it both ways, and there is every reason why we should do our honorable part in this world crisis.

Measures of Relief.

We regret to say, however, that little progress has been made during the past month in the development of any comprehensive plan for dealing with the situation. The Edge bill is making progress in Congress. It proposes to amend the Federal Reserve Act to permit the organization of corporations with not less than \$2,000,000 capital to do ordinary international banking and also with powers to issue debenture bonds based upon foreign securities. This is good as far as it goes, but is there any assurance that such corporations will be promptly organized and develop the sale of securities fast enough to relieve the existing situation. Isn't this a diffusion of effort where a concentration of effort is required? We have leaned all along to the opinion that the needs of the situation were too great to be met by voluntary unorganized effort.

We discussed this situation in the May number of this Bulletin as follows:

This is one of the great emergencies of the world's history, and the story of it will be told throughout all time. It will be to the lasting honor of America, crowning her achievements in the war with a greater glory, if this country will go to the limit of her ability not only in providing food for the starving but in helping these stricken people to start their industries and get upon their feet again. The first great want is relief for their personal necessities, but they need help to put them in the way of being self-supporting; otherwise there will be many years of prostration, with poverty, suffering, and disorder, the results of which will extend to the whole world. Considerations not only of humanity, but of self-interest should prompt this country to give all the help within its power. No part of the world can hope to have abundant prosperity when so large a part of the world is crippled and unproductive. All of these countries need not only food, but working capital, raw materials and machinery. Provided with these their recovery will be comparatively rapid, and eventually they will be able to discharge their obligations in full.

Private credit is unable to cope with this situation. The needs are on too vast a scale, and the people of this country are too far away to take a large part in it as individuals. We may ring the changes upon foreign investments and some will be made, but the total will be far below the sums needed. There is only one way in which the resources of Europe can be pledged in such manner as to promptly command credit upon a great scale, and that is through governmental agencies, the foreign national and municipal governments, and even then the results will be inadequate unless supported here by the United States government.

It is generally agreed that it is unnecessary for the Government to participate largely, and undesirable, provided a general public interest can

be aroused, but some degree of Government participation has been regarded as necessary in order to create public interest.

We have received within a few days, a letter from a banker in a small town of Nebraska who rises to the occasion as follows. We publish it because we believe it indicates the response which a properly organized movement would meet:

MINDEN EXCHANGE NATIONAL BANK

Minden, Neb., August 11, 1919.

National City Bank, New York.

Gentlemen:

After reading your Circular for August, 1919, I could not help feeling that something of a substantial character, something immediate should be done, not only for our own protection, but to start the wheels moving in the different foreign countries.

The Banks cannot finance this matter. The Government can do nothing further and an appeal to the people of our country I am sure if properly staged with the Liberty Loan organizations we have everywhere would scatter a good many billions among all the people and no one would feel it very much.

The people of the country do not understand the conditions and are expecting the Government and the New York banks to keep things moving, where if the matter was put straight to the people for a French, Italian, English or even German loan and they knew the conditions much could be done. Very little can be raised through circular letters and such people as you taking a few millions and reselling them. The people will not take much this way, but with a general Bond issue to all, with plenty of literature and plenty of work, it will go.

People are losing their heads in land speculation and promotion schemes which are of very doubtful value, and need something to divert them. Can't a thing of this kind be started and turn them in another direction? It is up to our country to do this thing and all the people will do it if given a chance and given the proper understanding of its necessity. You probably receive many suggestions of little or no value and this is probably one of them but I believe it could be put through.

Very respectfully,

GEO. P. KINSLEY, Vice-President.

Confusion of Counsel.

It is now two months since following the return of Messrs. Vanderlip and Davison from Europe, that a movement was inaugurated by the bankers of New York City looking to the organization of a wide-spread effort to provide funds for the financing of European purchases. The movement had scarcely begun to take form when opposition began to develop. The plan as contemplated would require countenance and approval by the Government, even though the latter did not participate to any large extent. Legislation would be required, and the development of opposition made it apparent that this could not be had readily and, in view of the present divisions in Congress, probably not without much delay.

The first criticism offered was that New York bankers had developed a scheme for involving the country in foreign loans from which they would

derive large profits, and that the loans would be likely to prove a source of embarrassment in the future, probably requiring intervention by the United States Government in European affairs and perhaps the dispatch of an American army to enforce their collection. That such views were held by influential members of the legislative bodies was enough in itself to give a serious check to the movement, for the New York bankers have no disposition to press it in the face of that kind of opposition. Evidently the situation is not understood, and it cannot be effectually dealt with unless it is understood.

The Profits of Exchange.

As the activities of New York bankers in this matter have seemed to slacken, and as the exchanges have continued their course downward, another species of suspicion and criticism has developed. The bankers are said to be making, or in the way of making, a great deal of money out of the decline, and therefore to be indifferent about any corrective action.

If the interests of the bankers in this matter were opposed to the public interest, and they were disposed to sacrifice the public interest, their natural policy apparently would be to keep quiet about the situation, but they have pursued the opposite course. The New York banks have been sounding a warning about the exchange situation for months. Ever since the armistice was signed this Bulletin has been largely devoted to an explanation of the pending and threatening exchange situation. It is difficult to conceive how the bankers could have done more to arouse public interest in the problem. They have given notice over and over again that the situation was menacing to the export trade and the general business situation, and that it was beyond their control.

Profits Offset by Risks.

As to the profits of doing business in such a situation, they are such as arise from a state of uncertainty in trade, where losses are quite as common as profits. Good business men may be successful under such conditions, but they do not prefer to do business under such conditions, or take any risks that they can insure against. One theory which seems to be current outside of the banking business is that the banks have accumulated great sums of foreign credits on the downward movement, from which they will make large sums when the upward movement comes. It is evident that up to this time all such ventures have been losing ones; the profits are not to be had until the exchanges rise, and meantime the bankers who have made such investments on a large scale must be having an uncomfortable time.

The banker is a dealer in exchange. He seldom creates it, particularly in such a situation

as the present. He tries to buy and sell at a profit and to keep his position hedged as closely as possible. To suppose that he goes long or short in large amounts in order to take advantage of long swings in the market assumes that he will take chances which a prudent banker avoids. It would be like buying grain or cotton without hedging, and a dealer in grain or cotton loses his bank credit when he is known to follow that policy.

Current Fallacies.

The idea that somebody has bought and now holds in this market a great amount of current European bank credits is a fiction of the imagination. If anybody wants to take advantage of low exchange, a better investment would be in foreign securities. French, Italian, Belgian, German and British securities will pay a very high return while carried, besides the profit to be gained by the return of exchange rates to normal. But bankers cannot properly tie up their resources in that manner.

The current confusion in the minds of the public about exchange is illustrated by the fact that because the National City Bank has branches in a foreign country, the suggestion is sometimes made that it is in position to sell exchange on that country to any extent at normal rates no matter how high the market rates may be. If the balance of trade between the United States and Argentina runs continuously in favor of the latter, as it did for a long time during the war, the Bank in New York cannot draw continuously upon its branch in Buenos Aires, without providing the latter with the means to replenish its reserves. In other words the Bank in New York must buy exchange on Buenos Aires to offset what it sells. Otherwise its entire capital in Buenos Aires will be transferred to New York, and the Buenos Aires office will be out of business.

The Fundamental Fact.

The fundamental fact about the exchanges is that they are dependent upon the trade and payments between countries. Unless the latter are nearly enough in balance to settle themselves within a short period, exchange rates are bound to reflect the fact by considerable fluctuations. Indeed they are not only unavoidable as a result of unbalanced trade, but necessary to hold trade in balance and to bring it back into balance and prevent the banks from being overloaded with undesirably extended credits. If the trade does not come into balance within the ordinary periods of bank credits, settlements should be made by investment credits. For this reason a Government foreign exchange bank would afford no remedy for fluctuations in foreign exchange. Unless the Government is prepared to use its credit to an unlimited extent it can exercise no control

over such fluctuations, and even then the operations would call for the exercise of discretion to a degree which should not be vested in public authority.

Gold Imports.

As yet no results are apparent from the action of the British Government granting permission to the South African gold producers to sell their current production in the best market. The natural thing for them to do seemingly is to send their gold to New York, and sell drafts against it in the London market. With sterling at \$4.20, they would realize about 13 per cent more for it than the coinage value in London, less the extra cost of transportation, and this would help considerably in meeting the higher costs of production under which they are laboring.

Scarcely anything is being said about one of the biggest gold transactions of history, just now in progress, which is the transfer of \$102,000,000 in gold from the Reichsbank, the Central bank of Germany, to the Federal Reserve system of the United States, in payment for shipments of food made in recent months by the United States Food Administration. This is equivalent to an importation of the above amount of gold. It has already been received by the National Bank of Belgium and the Bank of the Netherlands, and may be expected to appear shortly as a credit at the Bank of England. Just how it will be handled thereafter remains to be seen, but it will be eventually distributed to the several reserve banks which participated in the advances to the Food Administration.

The effect of the receipt of this gold and of any importations from South Africa will be to raise the percentage of reserve in the Federal Reserve banks. Presumably, however, the Federal Reserve Board intends to keep as tight a rein on credits as practicable, and these additions to the gold stock will have no influence on current banking conditions.

The Railroad Problem.

It is now clearly recognized that the re-establishment of railroad credit is the heart of the railroad problem. Modifications and improvements in the machinery of regulation, necessary as they are, will prove futile unless requisite measures are also taken to make the field of railway enterprise inviting to capital.

Early in August the National Transportation Conference submitted to the Committee on Interstate and Foreign Commerce of the House of Representatives a new program for remedial legislation concerning the railroads. The Transportation Conference was called into existence by the Chamber of Commerce of the United States and its program contains the best thought of a body of able men representing a wide variety of interests. That part of the plan particularly aimed to strengthen and

stabilize credit proposes that Congress adopt a statutory rule of rate-making requiring the Interstate Commerce Commission to establish rates designed to yield the carriers not less than six per cent. upon the aggregate fair value of the properties.

No Guaranty to Individual Companies.

This plan, it should be observed, does not contemplate a guaranty to individual railroads (which would doubtless be fatal to efficiency) but simply provides for a level of rates which will yield a reasonable return on the property of all the roads grouped in the three major traffic sections of the country. Under this plan some roads would be able to earn more than six per cent. and many roads less. The premium on good management and strategic location would remain. While the establishment of reasonable rates is a *sine qua non* for the restoration of credit, the program of the Conference goes further and proposes the creation out of earnings of general and individual contingent funds for the protection of credit during periods of commercial prostration. The Conference recommends that "fair value" shall be ascertained by the Commission by giving consideration not only to physical property but also to earning power and such other elements as may properly receive attention.

In the insistence upon the establishment of a statutory rule for rate making this plan bears a close analogy to that of the National Association of Owners of Railroad Securities.

A Statutory Policy on Rate-Making Required.

Rightly or wrongly the investor has lost confidence in the Interstate Commerce Commission and the situation requires definite instruction from Congress to the Commission as to what constitutes reasonable rates. Failure to adopt a plan to stabilize railroad credit at this time involves consequences of the most far-reaching character. The railway industry is so fundamental to the welfare of the nation that if private capital cannot be attracted to provide the necessary new facilities the Government itself must undertake the work. The country will then be forced into Government ownership of railroads at a time when the sentiment of the people is opposed to it, but as the English authority, Mr. W. M. Acworth, writes in the last issue of the *Quarterly Review*, "No country has ever nationalized its railways as a result of deliberately weighing the respective advantages and disadvantages of public and private ownership."

The Country Against Government Ownership.

The Chamber of Commerce of the United States, which represents commercial and trade organizations with a membership of 617,000 business men, announced on August 5th that complete returns of a referendum submitted

to its members showed that 99 per cent. of the votes cast were opposed to Government ownership. Further indicative of prevailing sentiment is the statement of the National Grange filed with the House Committee that "the National Grange is opposed to Government ownership of railroads, especially opposed to the so-called Plumb Plan which seeks not only to have the Government acquire the railroads but then turn them over to be operated by a management in which the men who draw the wages will name two-thirds of the directors."

The Plumb Plan.

With the business and agricultural interests of the country opposed to Government ownership, the Railroad Brotherhoods announced their determination to secure it. This is greatly to be deplored because the character of the demand has created no little uneasiness in the minds of investors and injured confidence at a time when the best constructive effort should be employed to up-build it.

The Plumb Plan is the program of the Railroad Brotherhoods for securing Government ownership. It was first presented to the Senate Committee as long ago as last February but the people were scarcely aware of it. Its presentation before the House Committee in August was accompanied by alarming threats of the Brotherhoods' leaders indicating their intention to force the adoption of the plan at any cost. This plan proposes that the railroads shall be purchased by the Government and turned over to the railway men to be operated as a single system under a long term lease, with a board of directors of fifteen, two-thirds of whom shall be appointed by the operating officials and employees. Profits if any are to be divided equally between the railway men and the Government. The losses would have to be borne by the tax payer. If the experience throughout the world is any guide there would be no profits but huge losses under such a scheme.

Value of Railroad Property.

The advocates of the Plumb Plan claim that the public could buy the railroads for ten or twelve billion dollars in four per cent. bonds. Even on this basis the interest requirements would consume almost all of the net earnings which the roads are now showing. If the Government acquires the railroads their owners are entitled to be paid for their properties in cash. They cannot be compelled to accept a four per cent. Government bond at par as the equivalent of cash, and as Liberty bonds are already selling close to a five per cent. basis the increase in the debt consequent on the purchase of the roads would send the rate well above five per cent. unless the new issue were made wholly exempt from taxation.

But what justification is there for assumption that the railroads are worth only ten or twelve billions? Mr. Plumb apparently believes that there would be no injustice done to the owners because he estimates that the railroads are selling at about this figure in the markets to-day. The market value, however, has never been recognized as the sole standard for measuring the worth of a property. The railroads are capitalized at approximately eighteen billion dollars. On the other side of the balance sheet stands the property investment account, which Mr. Plumb considers worthless as reflecting the real value of the railways, but the Interstate Commerce Commission, while recognizing the imperfections in this account, has used it for years as a safe guide in determining the reasonableness of rates.

Furthermore, under the regulations of the Commission, since 1907 the property investment account has not been increased one dollar except as the result of one dollar of cash going into the property. The addition to the property investment during the period between 1907 and 1917 was very nearly five billion dollars cash.

The Commission's Valuations.

Mr. Plumb fortifies his charge of water in railroad securities by stating that "in the five railway valuations completed and published by the Interstate Commerce Commission the cost of reproduction new, including increased value of land and real estate is but 50 per cent. of the aggregate property investment accounts." This is a damaging assertion that requires answer.

The Bureau of Valuation of the Interstate Commerce Commission has published *tentative* valuation figures for four railroads and a final valuation for one. The final valuation has been made in respect to the Texas Midland, which shows a cost of reproduction new of \$3,561,000, which compares with a capitalization of \$2,112,000. The tentative valuations cover the Atlanta, Birmingham & Atlantic, Kansas City Southern, New Orleans, Texas & Mexico and Winston-Salem Southbound. Each of these railroads has been protesting the tentative valuations and the Kansas City Southern has carried a case to require the Commission to find the true cost of reproduction or acquisition of its lands to the Supreme Court. It is a fact that as to three of these roads tentative figures show a cost of reproduction new substantially less than the capitalization, but it is hardly fair to draw conclusions from these figures in view of the fact that they do not pretend to give a final value. Furthermore, even if the tentative valuations were correct, they cover only 1,840 miles of

road and there is no warrant for the assumption that they are typical of the 260,000 miles in the country.

The Kansas City Southern.

It will perhaps not be out of place to indicate some of the grounds on which the roads are making their protests against these tentative valuations. The Kansas City Southern Railway Company, which owns 823 miles of road extending from Kansas City to the Gulf of Mexico, contends that the true cost of reproducing its properties should be \$89,000,000. The figures of the Bureau of Valuation as modified by stipulations since the valuation was published show a cost of reproduction new, including land, of over \$63,000,000. The Kansas City Southern protests against its tentative valuation because such important elements as the cost of materials and supplies and working capital are omitted, while nothing is allowed for adaptation and solidification, or intangible values, and no multiples are used in arriving at the cost of acquiring lands for transportation purposes. The company also protests because the Government has used June 30, 1914, as its valuation date. The use of this date is vigorously attacked by all the railroads as they claim with good reason that it was a time of exceptionally low prices. The Kansas City Southern furnishes interesting proof of this. Applying the prices of labor and materials of June 30, 1918, to the Government's estimates of quantities, etc. (which the company does not admit are correct) the cost of reproducing new this 823-mile railway would be not \$63,000,000 but \$110,000,000.

The par value of the capitalization of the Kansas City Southern is approximately \$99,000,000, of which \$48,000,000 is represented by bonds, \$21,000,000 by preferred stock and \$30,000,000 by common stock. It will be noticed that the capitalization is somewhat in excess of the company's own estimate of reproduction cost and quite a little greater than the Commission's estimate. The company's standard return, that is, the rental which the Government is paying for the use of this property, is about \$3,500,000 per annum. This capital charge can hardly be considered excessive in view of the fact that it is less than 4% on what the company considers the value of its property and only slightly over 6% on what the Commission considers the property to be worth. No injury to the public is done by whatever excess capitalization there may be in this case, for the \$30,000,000 common stock issue has never received any dividend and its market value during the twenty years it has been listed on the New York Stock Exchange has never exceeded 50%, and is today under 20. This property was largely constructed with Dutch capital and it is understood that Dutch and Swiss investors still own substantial amounts of its securities.

Central of Georgia and Rock Island.

There has recently been completed another tentative valuation which demonstrates the unfairness of Mr. Plumb's charges. The Central of Georgia Railway is 1,962 miles long; this single road therefore has a greater mileage than the aggregate of the four roads heretofore tentatively valued. The Bureau of Valuation reports that the cost of reproduction new of this property, as of June 30, 1915, using prices as of June 30, 1914, exceeds \$88,000,000, while the cost of reproduction less depreciation is \$71,700,000. The capitalization of the company as of June 30, 1915, was \$57,000,000, of which \$37,000,000 was debt and \$20,000,000 capital stock. The depreciated value exceeds the aggregate gross capitalization outstanding on the valuation date by approximately 20 per cent.

Within the last few days information comes from official sources that the Commission has placed a tentative valuation on the Chicago, Rock Island & Pacific Railway of \$410,000,000, which is \$64,000,000 in excess of its present total capital issues, including common stock. In addition to the valuation already allowed the company is claiming other elements of value aggregating \$165,000,000. The valuation of the property is made as of June 30, 1915, since which date it has been estimated that there have been capital expenditures aggregating at least \$17,500,000. Adding this amount to the valuation would give a cost of reproduction of \$427,500,000, compared with \$216,000,000 of bonded debt and \$129,000,000 of capital stock, or total capital liabilities of \$346,000,000. The valuation of the Rock Island covers over 7,500 miles of line.

Minnesota and New Jersey Appraisals.

The contention that the railroads, considered generally, are under-capitalized, not over-capitalized, is further supported by valuations undertaken by several of the states. One of the most exhaustive was the appraisal made by the State of Minnesota in 1907 to determine the value of 8,000 miles of main track in that state. This valuation showed an aggregate cost of reproduction new in excess of \$411,000,000 and a cost of reproduction less depreciation of \$360,000,000, while the share of the capitalization of these railroads apportioned to the State of Minnesota amounted to \$334,977,000. It is a common experience that railroads must pay more than the going value of adjacent property when they acquire lands for transportation purposes, and in the foregoing estimate such allowances were made. As an example, the engineers found by actual experience that the railroads paid for property over and above its normal value an amount sufficient to justify the use of a multiple of $1\frac{3}{4}$ in the City of St. Paul.

A second appraisal was made in Minnesota omitting multiples and excluding allowances for solidification and adaptation. In this case the cost of reproduction new was \$373,000,000 and the cost of reproduction less depreciation was \$322,000,000. It will be seen that even the lowest figure is but slightly under the par value of the allocated capitalization. In making this appraisal the estimates were based on average prices prevailing in the five-year period prior to the valuation date.

In 1911 the State of New Jersey made a valuation of its railroads for purposes of taxation. A total of 2,012 miles of road was appraised. The value new was reported to be \$351,000,000; the present value \$343,000,000, contrasted with a capitalization of \$357,000,000.

Railroads as a Whole Not Over-Capitalized.

Mr. Charles A. Prouty, Director of the Bureau of Valuation, in his suggestions for remedial legislation, includes the following statement: "The railroads of this country should be self-supporting. To this end Congress should instruct the Interstate Commerce Commission to establish such reasonable rates as will yield a fair return upon the value for rate-making purposes which it establishes.

The Supreme Court, as I understand its decisions, has held that the carrier is entitled to a fair return upon the fair value of its property provided it can earn this return under reasonable rates. The rates established must be reasonable and if reasonable, while some individual carrier may suffer, carriers as a whole will be given proper compensation. The value upon which this return would be allowed is that value which the Commission is now fixing under the Valuation Act of 1913." Mr. Prouty has announced that within the next two and one-half years it is probable that the Commission will have named the rate-making value of every considerable railroad property in the United States. The most well-informed men believe that these valuations when completed ought to show that, taking the railroads as a whole, their valuations will prove to be greater rather than less than their capitalizations.

The Money Market.

The call money had a period of relaxation early in the past month, but the general situation is very firm and the outlook is for a strong demand throughout the fall. Time money is six per cent. Call money in the latter part of the month ruled at five to six per cent. The decline of call money in the first half of the month caused a good deal of interior money to be withdrawn from New York and the Treasury calls on depositary banks have had a like effect. These calls for Treasury deposits were the principal influence in lowering the reserves of the Clearing

house banks slightly below the limit on the 23rd, as they reduced the reserves without reducing the amount of reserves required.

The deficit was of no importance, except as showing that there is no surplus lending power in New York except as resort is had to the Federal reserve bank, which bankers are inclined to avoid as far as possible.

Earnings assets of Federal reserve banks total \$2,402,375,000 as compared with \$2,468,086,000 on August 1. Member bank loans are at the highest point yet reached, \$11,173,559, exclusive of those on government securities.

Second Pan-American Financial Conference.

Announcement has been made by Secretary Glass that upon his recommendation the President has decided to invite the countries of Central and South America to send delegates to the Second Pan-American Financial Conference, to be opened Monday, January 12, 1920, in Washington, D. C. The Secretary expresses the hope that the delegation from each country will be headed by the Minister of Finance of that country.

The first of these financial Pan-American conferences was held in May, 1915, the primary purpose to consider the financial problems created by the outbreak of the war. Now, after a lapse of five years, it is opportune to have another, to consider the new situation presented by the re-establishment of peace.

Since the adjournment of the Conference of 1915 there has been at work a permanent organization created by the Conference known as the International High Commission. This Commission is composed of national sections in each of the countries, headed in each instance by the Minister of Finance. This Commission has a central executive council, consisting at this time of the Secretary of the Treasury of the United States, Assistant Secretary of the United States Treasury, the Hon. L. S. Rowe, and the Hon. John Bassett Moore. This International High Commission will have an important report of progress to make to the Second Conference when it assembles.

Andrew Carnegie's Career.

Andrew Carnegie had a wonderful career, and now that he has passed from the scene and is separated from the great possessions which the public was prone to think of as monopolized by him, it is possible to form a more correct idea of the value of his services to the community. So long as he was here and held the legal title to his properties and had the disbursement of his great income, it was difficult to dispel the illusion that this wealth was exclusively his and ministered only to his individual pleasure and satisfaction and that of his dependents. The criticism that was directed at him while he lived showed that this was the common view. Since

his death a kindlier tone of comment is apparent, partly, no doubt, because unfriendly criticism is modified by death, but partly perhaps from a realization that his achievements in the business world have been worth vastly more to the public than to himself.

While the common idea of business is that of a great game in which every one is playing to get the most he can for himself, with his activities limited by certain general rules, there is a larger purpose in it. That purpose is to satisfy the needs and wants of the population. Business is legitimate and worthy, as it tends in this manner to promote the general welfare.

Mr. Carnegie was a business man of genius. He had an original, constructive, managerial mind—the type which supplies leadership and finds new ways of doing things. The progress of society depends upon this kind of men. They tell and show other people how to do things. What they eat and wear out, and otherwise consume and devote to themselves during their lives is nothing compared with the increased production which results from their efforts. They raise the whole industrial community to new levels of productivity, new bases from which progress goes on after they are gone.

Mr. Carnegie's Contribution to the Steel Industry.

Mr. Carnegie devoted his business career to the development of the iron and steel industry. He disapproved, as advice to a business man, the counsel, "Don't put all your eggs in one basket." He considered that well enough for a mere investor, but his theory in business was to "put all your eggs in one basket and watch the basket." He put his energies into the steel industry, and put his profits back into that industry for its improvement and development, until he was ready to retire, and then sold out, lock, stock and barrel, excepting that he took well-secured bonds. While he was active in the steel industry he devoted himself and the earnings to its progress. After his retirement he drew the fixed income which accrued to him and gave by far the greater portion of it away for the education, advancement and enlightenment of mankind.

Mr. Carnegie led in the development of the steel industry. As stated, he withdrew practically none of the profits, but used them in experiments and improvements to increase the efficiency of steel-making methods. He had the qualities of a great executive in the selection of aides, and drew about himself a corps of capable and ambitious young men. He took many of them into partnership, and all the way down the line he stimulated invention, encouraged initiative and rewarded ability. Organization is a great factor in industry, and the Carnegie works were great for team-work. It may be doubted if there ever was another establishment so charged with the spirit of progress, so receptive to new ideas, so ready to scrap good equipment for something

better. So long as Andrew Carnegie was in the steel business his mind was centered upon reducing the cost of making steel; the profits which he made as he went along he regarded as means to that end.

Effects of Cheapening Steel.

There never was a period of reduction in the market prices of steel, and of development in the consumption of steel, like that period from the time Andrew Carnegie entered the business until he retired from it. Of course he did not accomplish it all; he had worthy competitors; there were contributors to the progress on both sides of the Atlantic; but it is not too much to say that he was the leader.

The effects upon all industry and upon social conditions and world affairs generally of this reduction in the price of iron and steel were very great. The uses of steel were multiplied and the consumption was enormously increased. Railway building was cheapened and stimulated, with the result that vast areas of new territory, not only in the United States and Canada, but in Argentina and Russia, were opened up to cultivation. The development of steel ships and consequent cheapening of ocean transportation, was also an important factor in this agricultural development, and so was the cheapening of steel for agricultural implements. In fact the cheapening of steel was the chief influence in the fall of prices, which was almost uninterrupted from about 1870 down to 1896. That fall of prices made living cheaper in all the centers of population, and was especially beneficial to the wage-earning class. Their condition never improved more rapidly than during this time. The farming class did not fare so well because the improvements in transportation brought so much new land into competition with the old.

This is not the place to discuss all the counter influences which have brought about a rise of prices since 1896, but it is pertinent to say that outside of Canada there has been little building of new railways or opening of new agricultural territory since that time, and the advance of foodstuffs, raw materials and wages has been the chief factor in the general rise of prices.

Mr. Carnegie's Critics.

Mr. Carnegie's critics have always argued either that he charged too much for steel or did not pay high enough wages to his employees. As to the first argument, it is pertinent that he was the greatest price-cutter in the business. That was his notable characteristic. He was a terror to competitors, who never knew when he would break loose or how far he would go. He was always improving his works, to lower his costs, to increase his tonnage, to lower his costs, etc. It used to be said in the west that the farmer wanted to buy more land to grow more corn, to feed more hogs to buy more land, etc.; and Mr. Carnegie travelled a somewhat similar circle. Henry

Ford's hobby is mass production, but Andrew Carnegie was ahead of him on that line. He made his money in steel, as Ford has made his in automobiles, by lowering prices and increasing the volume of production. The critics who take the fact that he made a great fortune as *prima facie* evidence that he charged too much for steel might as well say that Ford has charged too much for his automobile. Indeed that criticism has been made, but it is an illogical one to make of any man who is the low price-maker in his line. Moreover, since Mr. Carnegie's profits were constantly used to increase production and lower prices the public was benefited by his having abundant means with which to carry on his policies.

The Wage Question.

With respect to the argument that the accumulation of wealth in his business is *prima facie* evidence that he might and should have paid higher wages, two questions may be raised: First, whether the employees of Mr. Carnegie, as a matter of abstract justice, were entitled to higher pay than the employees of his competitors for doing the same kinds of work; and, second, whether it would have been in the public interest, or the interest of the wage-earning class as a whole, for him to have disbursed his profits in payment of wages above the economic level.

Mr. Carnegie did not pay any class of labor lower wages than were current in the industry for a given class of work. On the contrary he had the reputation of being a good employer. It may be laid down as a general rule that the large employers in any industry do not pay less than standard wages. They know the value of steady, reliable, experienced employees, and do not expect to hold them, or bother to try to get them, below the going wage. Mr. Carnegie was exceptionally liberal to men in positions where individual capacity counted. Nobody knew better the value of incentive to individual effort, and presumably he offered it wherever production might be increased. The only question, therefore, is whether the mere fact that a man was in Mr. Carnegie's employ entitled him to higher pay than if he did the same work for a less prosperous concern.

If an affirmative answer is made it follows that Mr. Carnegie's employees would be a fortunate class, favored through no merit of their own. If the places were assured to them and were transferable at their will, they would have a "right" equivalent to a franchise, which could be sold at a price which would bring the net return to the purchaser down to about the normal wage. Thus a stock which has an assured ability to pay 8 per cent. is worth in a 6 per cent. money market about 133.

There is no social reform or industrial democracy in such arbitrary and limited distribution. It is favoritism, of which the best that can be

said is that it may tend to promote good feeling between that particular employer and his employes, but this is offset by the fact that it is likely to cause discontent and friction elsewhere. Unless efficiency or stability in industry is promoted, there is no compensation for the extra pay, and it is not based upon any principle of justice. The permanent results are likely to be small.

The Distribution of Benefits.

We have seen that Mr. Carnegie's investment of profits resulted in benefits to the whole civilized world, reducing the cost of steel, of transportation, of tools and implements, foodstuffs and clothing, and increasing the supply of all these necessities. If he had had less capital available for such development his accomplishments would have been of less importance, and it is probable that the disbursement of this capital to his employes, scattered among so many, would have been without traceable results. In other words, the surplus in question brought larger results to the entire wage-earning class as used by Mr. Carnegie than if arbitrarily distributed to the relatively small group who happened to be his own employes.

The same result is illustrated in Henry Ford's career. That portion of his profits which he distributes as extra bonuses to his own employes accomplishes less permanent good than the portion which he expends for experiments and investments resulting in the general advancement of industry and in the development of such implements as the farm tractor.

It is gratifying to know that an employer has the generous impulse to pay his employes more than the market wage, but it is still more satisfactory to know that there is a natural economic law which accomplishes an even broader distribution, and does it with unerring certainty not only from the gains of the generous, but from the accumulations of the most grasping and selfish.

There is no other way in which the benefits of industrial progress are so widely and promptly distributed as by lower prices for products to consumers. They are carried in this manner to the entire population, the economically weak and helpless as well as to those fortunately strong and well-situated to enforce their demands. Compare this method with the scramble for wage-increases, in which the organizations which have control over certain necessary services are able to exploit all the rest of the community.

The Public's Greatest Interest.

It must be borne in mind therefore that the application of Mr. Carnegie's profits to the improvement and expansion of the steel industry, was to an essentially public purpose. Every suggestion that he should have diverted these profits to some other use must be weighed in comparison with the public results which were achieved by

the policy which he followed. At what stage of his career would it have been advantageous to the public for him to have stopped his construction policy? When he had acquired \$100,000? At \$1,000,000? At \$5,000,000? What logic is there in blaming him for not making a different distribution of his enormous income when if he had followed any of the policies suggested by the critics he never would have had such an income. The truth is that without depreciating the value of the great gifts made after he had retired from business, he conferred greater benefits upon the public while he was making his fortune than in giving it away.

All Productive Property in Public Service.

The chief cause of social discontent is the primitive, but still prevalent, idea that a rich man's income is kept in a vault, or somehow withdrawn from the common use and devoted to the owner's exclusive benefit. The truth is that everything that can be called an investment, or that is yielding returns, is necessarily in public use. A man's clothes are an exclusive kind of property, and so is the house he lives in and its furnishings, but the productive wealth of the country is employed for the common welfare. Everything that is producing for the market is producing to meet public needs. The farming land of this country is private property, but, regardless of who owns it, it is producing for a common supply. The wheat crop now being harvested is 300,000,000 bushels short of the estimate of June 1, but that loss under normal conditions would fall on the consumers rather than the land-owners. The cotton crop is also short, but there again the loss falls mainly on the consumers. The public's great interest is in increasing production, and it is to this purpose that all invested wealth is devoted. The great bulk of the earnings and profits of wealth are being used as Carnegie used his during his active career, viz.: in developing the means of production and increasing the supply of articles of common consumption.

Unfortunately our public discussion ignores this evident truth, and proceeds for the most part upon the theory that the achievements of the leaders of industry benefit nobody but themselves, and that it is good public policy to hamper their efforts and deprive them of the means with which they work.

The Public Gets Another Chance at Profits.

The public gets another chance at all the profits which it sees flowing into private pockets. They are not buried in the ground. The acquisitive instinct forbids that, and the only way they can be put into use is by increasing production or public service in some manner. The story is repeated over and over again. It is no answer to say that each investment of new capital exacts profits, for the community loses nothing in paying profits which are immediately devoted to

further service. Except what Mr. Carnegie personally consumed, the community has the total results of his labors.

The steel business was developed out of its profits—the profits which have been so often criticised. Without them the required capital would not have been available and steel would be still unknown to its multiplied uses. It is the same with all the industries. The great cotton manufacturing industry has been developed by means of the profits made in it and the public has gained more by the investment of these profits for the cheapening of production than it would have gained in having cloth sold to the public at cost, because in the latter event there would have been no progress in the industry.

Ogden Armour testified before a Senate Committee that 87 per cent. of all the profits of the Armour business since it was incorporated had been left in the business for its development. The profits of the business have averaged less than 2 per cent. of the value of the annual turnover, and only 13 per cent. of this 2 per cent. has been withdrawn from the business—less than 2 mills to the dollar of turnover. If the Government had owned the packing business it would have had to provide the capital for its expansion either through profits or taxation.

The Government Industry.

Andrew Carnegie's career is very suggestive of comment upon the proposal to have the Government embark in industry. If Mr. Carnegie had been hired by the Government, after the Lenine plan, to devote his life to the development of the steel industry upon a salary amounting in the aggregate to his living expenses, the charge upon the community for his services would have been practically the same. He could not have devoted himself to the task more completely, and allowing that his zest was undiminished he would have had nothing like the independence of action or free use of resources. Imagine him before Congressional Committees (changing every two years) trying to persuade them to adopt his policies and dissuade them from distributing the steel industry throughout the states on the basis of population and according to the principles laid down for the public building and river and harbor appropriations!

Or, imagine him trying to get permission to scrap practically new equipment in order to carry out some new idea; and imagine his position, and the task he would have defending himself against critics and rivals, if some of his ventures proved unsuccessful!

The whole theory of having the Government conduct industry is based upon the idea that the profits of private industry are lost to the public, that private wealth is hoarded for exclusive use and consumption. People think of a rich

man's wealth as withdrawn from the common supply, and that other people have less in consequence, but that is true only of the negligible portion which he and his dependents actually consume. Additions to capital all go to increasing the common supply, so that everybody has more in consequence.

How much more of the wheat crop did Mr. Carnegie withdraw from the common supply after his income passed a million a year than while his pay was \$50 per month, and how much more did he contribute to the wheat supply by reducing the price of steel than he ever withdrew from it for his own support?

How much more has Mr. Ford withdrawn from the common food supply since his income was a million a year than while he was working for wages, and how much more has he contributed to the food supply by developing the farm tractor than he has ever withdrawn from it?

The greater part of all the accretions to private wealth are in the form of equipment for increasing the production of things of which the rich already have an abundance, and of which, few in number as they are, they can consume comparatively little. The benefits accrue inevitably to the masses of the people.

The Bond Market.

"The general bond market last month passed through a very trying period, this being particularly true of railroad bonds. The general railroad situation became extremely involved by the radical Plumb proposition and the statements given out in connection with it. This disturbance, coupled with some liquidation of bonds from abroad, due to the heavy discount at which pounds, sterling and French francs have been selling, has caused a very general decline in prices, although the volume of the liquidation has not been as heavy as would appear from the low level of bond prices today. It is our opinion that this liquidation of bonds would have been absorbed in a much more satisfactory fashion had it not been for the vacation season, which is being observed more generally this year than possibly ever before. Not only has the probable investor been out of town, but a great many of the bond selling organizations have been working with depleted forces. Towards the end of the month a slightly better demand has developed, caused to some extent by the dealers showing more courage in anticipation of a good September bond market.

It is a significant fact that high class railroad securities today are selling on an average of from three to six points below the level just preceding the armistice.

THE NATIONAL CITY BANK OF NEW YORK

The Twentieth Century Idea of a Bank

THE earliest idea of a bank comprehended merely "a place where a man's money might be kept safely until he wanted it." But that limited conception has long since passed. The complex aspect of business in this Twentieth Century demands banks which shall be not only custodians of funds, but which shall also render the very fullest degree of service in all matters pertaining to financial transactions.

The customers of The National City Bank of New York, for example, frequently ask our advice about their business and their markets.

They avail themselves of our extensive credit information; bring to us the problems of their loans, discounts and securities. They entrust to us the handling of their commercial paper; the collections on their checks, drafts and coupons.

They look to us to keep them informed, through our publications, of current financial and economic conditions throughout the world.

These varied phases of banking are summarized in the words "City Bank Service," and are among the many factors that give that phrase its peculiar significance.

THE NATIONAL CITY BANK OF NEW YORK

55 Wall Street, New York

Established 1812

Combined Resources \$1,030,017,654

THE NATIONAL CITY BANK OF NEW YORK

AND BRANCHES

CONDENSED STATEMENT — AUGUST 15, 1919

ASSETS		LIABILITIES	
Cash on hand, in Federal Reserve Bank and due from Banks and Bankers & United States Treas.	\$237,699,889.58	Capital, Surplus and Undivided Profits.....	\$ 81,250,696.26
Acceptances of Other Banks.....	27,696,884.07	Deposits.....	779,927,333.01
United States Treas. Certificates.....	36,511,000.00	Circulation.....	1,420,995.00
United States Bonds.....	15,023,954.22	Bills Payable and Foreign Bills of Exchange Sold.....	1,426,642.74
Loans and Discounts.....	506,840,133.56	Acceptances, Cash Letters of Credit and Travellers' Checks.....	32,371,075.91
Bonds and other Securities.....	38,686,285.49	Other Liabilities.....	13,625,462.09
Other Assets.....	48,562,058.09		
	\$910,022,205.01		\$910,022,205.01

